

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 2538

E.O. 11652: GDS

TAGS : PINT, FI

SUBJECT: BUDGET TALKS REACHING DECISIVE STAGE; FUTURE OF CURRENT
MINORITY GOVT AT STAKE

REF: (A) HELSINKI 2470, (B) HELSINKI 2374, (C) HELSINKI A-132

1.SUMMARY: CURRENT GOVT NEGOTIATIONS WITH OTHER POLITICAL
GROUPS OVER BUDGET REACHING CRITICAL STAGE. OUTCOME MAY
DETERMINE WHETHER CURRENT GOVT WILL BE ABLE CONTINUE. AT
ISSUE ARE VARIOUS TAX MEASURES AND PROBLEM OF FINANCING AGRI-
CULTURAL SURPLUS. KEY TO OUTCOME OF NEGOTIATIONS AND FUTURE
COMPOSITION OF GOVT APPEARS LIE WITHIN SDP, WHICH DIVIDED
OVER WHETHER PARTY SHOULD RETURN TO FOTV. SDP SEC GEN BELIEVES
COMMUNIST SHIFT TO LEFT FACILITATES SDP MOVE INTO GOVT, BUT
THERE MAY ALSO BE OTHER FACTORS IN SDP LEADERSHIP'S DESIRE
RETURN TO GOVT. PRIMIN MIETTUNEN USING ALL NEGOTIATING
METHODS AT HIS DISPOSAL PUSH BUDGET THROUGH PARLIAMENT, AND
HE THREATENED SDP HE MAY TURN TO CONSERVATIVE PARTIES FOR
SUPPORT. GOVT ATTEMPTING GET BUDGET DECISION WITHIN
NEXT TEN DAYS. END SUMMARY.

2.NEGOTIATIONS BEING CONDUCTED BY THE GOVT CONCERNING
THE 1977 BUDGET ARE REACHING DECISIVE STAGE. OUTCOME
OF THE NEGOTIATIONS WILL HOLD IMPORTANT IMPLICATIONS
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FOR COMPOSITION OF FINNISH GOVT AND COULD WELL
DETERMINE WHETHER: (A) CURRENT MINORITY GOVT WILL

CONTINUE IN OFFICE, PERHAPS SUPPORTED ON BUDGET ISSUES BY CONSERVATIVE PARTY AND OTHER RIGHT-OF-CENTER PARLIAMENTARY GROUPS; (B) SDP WILL REJOIN CENTRIST PARTIES IN GOVT, CONVERTING IT FROM MINORITY TO MAJORITY GOVT; OR (C) NEITHER OF ABOVE COURSES PROVES POSSIBLE. IN LATTER EVENT CURRENT GOVT MOST LIKELY WOULD BE REPLACED BY TEMPORARY CIVIL SERVICE OR CARE-TAKER GOVT UNTIL NEW ELECTIONS COULD BE HELD, PERHAPS IN SPRING; SDP MINORITY GOVT ALSO POSSIBLE, ALTHOUGHT LESS LIKELY.

3. AT ISSUE IN BUDGET ARE VARIOUS TAX MEASURES AND THE PROBLEM OF FINANCING SURPLUS AGRICULTURAL PRODUCTION. SPECIFICALLY, ON REDUCTION OF INCOME TAX RATE SCHEDULE (TO ADJUST FOR EFFECT OF INFLATION ON TAX RATE), GOVT IS OFFEREING 11 PERCENT REDUCTION, SDP WANTS 15 PERCENT REDUCTION WEIGHTED TO FAVOR LOWER END OF TAX SCALE, AND CONSERV PARTY WANTS 15-20 PERCENT UNWEIGHTED REDUCTION. ON INCREASE OF SALES OR BUSINESS TURNOVER TAX TO PROVIDE NEEDED REVENUE, GOVT PARTIES AND CONSERV INSISTING ON 3 PERCENT INCREASE WHILE SDP INDICATES IT WILL NOT GO ABOVE 2 PERCENT INCREASE. SDP HAS INSISTED ON SPECIAL TAX ON INSURANCE COMPANIES WHICH WOULD INCREASE TAX TAKE FROM THAT SOURCE FROM CURRENT 20 MILLION MARKS TO 60 MILLION; LAST WEEK GOVT PARTIES RELUCTANTLY DECIDED GO ALONG WITH SDP REQUEST, BUT CONSERV PARTY REMAINS OPPOSED. SDP HAS ALSO BEEN INSISTING ON PROPERTY TAX ON CORPORATIONS AND INCREASED TAX ON FORESTRY INCME; BOTH CONSERV PARTY AND GOVT PARTIES OPPOSE FORMER, HWILE CENTER PARTY IN PARTICULAR OPPOSES FORESTRY TAX. FINALLY, SDP AND CENTER PARTY HAVE BEEN DEBATING FORMULA FOR FINANCING AGRICULTURAL SURPLUS, WITH CENTER PARTY ATTEMPTING DEFEND PRINCIPLE OF IMPORTANT GOVT FINANCING OF AGRICULTURAL SURPLUS AND SDP ATTEMPTING REDUCE GOVT FINANCING OF SAME TO MINIMUM.

4. DIFFERNCES ON ABOVE ISSUES BETWEEN GOVT COALITION AND SDP ON ONE HAND AND CONSERV ON OTHER ARE NOT ALL
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THAT GREAT BUT DO INVOLVE PRINCIPLES AFFECTING DIRECTION OF AGRICULTURAL AND TAX POLICIES THAT ARE IMPORTANT TO THE PARTIES. MEANWHILE, SKDL (COMMUNIST FRON PARLIAMENTARY GROUP) HAS TAKEN STRAIGHT OPPOSITION LINE ON BUDGET AND CAN BE EXPECTED TO VOTE AGAINST IT REGARDLESS OF OUTCOME OF NEGOTIATIONS AMONTH OTHER PARTIES.

5. KEY TO OUTCOME OF NEGOTIATIONS AND TO FUTURE COMPOSITION OF GOVT APPEARS LIE PRIMARILY WITHIN SDP.

SOCIAL DEMOCRATS ARE DIVIDED AMONTH THEMSELVES OVER WHETHER PARTY SHOULD RETURN TO GOVT AND IF SO UNDER WHAT TERMS. FROM WHAT EMBASSY CAN DETERMINE, DIVISION IS ESSENTIALLY BETWEEN TOP SDP LEADERSHIP ON ONE HAND, WHICH SEEMS ANXIOUS RETURN TO GOVT, AND IMPORTANT ELEMENTS OF SDP PARLIAMENTARY GROUPS ON OTHER HAND WHO ARE NOT EAGER RETURN TO GOVT NOW OR WHO AT MINIMUM WANT SET STIFF TERMS FOR SO RETURNING.

6. HELSINKI 2374 DISCUSSED FACTORS WHY WHY MANY IN SDP NOT EAGER RETURN TO GOVT, AND HELSINKI 2740 ALERTED THAT SDP LEADERSHIIP HAVING CHANGE OF HEART. SUBSEQUENT EMBASSY CONVERSATIONS WITH FINNISH POLITICIANS HAVE THROWN SOME LIGHT ON LEADERSHIP REASONING. SDP SEC GEN ULF SUNDQVIST, WHO PRIOR TO OCTOBER MUNICIPAL ELECTIONS HAD FAVORED LONG PERIOD OUT OF GOVT FOR SDP IN ORDDER "REBUILD" PARTY SUPPORT, TOLD POLCOUNS LAST WEEK HE BELIEVES SDP SHOULD NOW RETURN TO GOVT. HIS MAIN LINE OF REASONING IS THAT SDP'S RELATIVE SUCCESS VIS-A-VIS SKDL IN MUNICIPAL ELECTIONS AND SUBSEQUENT COMMUNIST SHIFT TO LEFT (AS BEST EXEMPLIFIED IN COMMUNIST PARTY'S NEW ACTION PROGRAM-- HELSINKI A-132) ARE DEVELOPMENTS THAT EFFECTIVELY REMOVE COMMUNISTS FROM BEING EITHER A VIABLE COOPERATION PARTNER TO BE TAKEN SERIOUSLY OR A CREDIBLE RIVAL FOR SDP NON-COMMUNIST BUT LEFT-WING SUPPORT. THEREFORE, ACCORDING TO SUNDQVIST THEORY, SDP CAN AFFORD NEGOTIATE WITH CENTRIST GOVERNING PARTIES ON BASIS OF SDP POSITIONS WITHOUT FEAR THAT REALISTIC COMPROMISE WILL SPLIT PARTY OR MAKE IT MORE VULNERABLE TO COMMUNIST CHALLENGE. HE INDICATED SDP SUPPORTERS NOW UNDERSTAND
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THAT FOVT DECISIONS WILL BE BETTER WITH SDP PARTICIPATION THATN THEY WOULD BE WITHOUT SDP PARTICIPATION, WHICH IS THE POSTIVE REASON WHY SDP WNATS BACK INTO GOVT.

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ACTION EUR-12

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7. SUNDQVIST ARGUMENT COULD WELL BE IMPORTANT FACTOR
IN SDP LEADERSHIP DECISION RETURN GOVT. OTHER FACTORS
MIGHT BE POSSIBLE PRESSURES ON SDP FROM PRES KEKKONEN
TO REACH COMPROMISE AGREEMENTS ON BUDGET ISSUES AND TO
RETURN TO GOVT AND SDP CHAIRMAN SORSA'S PERSONAL AMBITION
RETURN TO GOVT, PERHAPS AS PRIME MINISTER. AS NOTED,
HOWEVER, THERE IS RESISTANCE WITHIN SDP, PARTICULARLY
IN PARLIAMENTARY GROUP, TO QUICK SDP RETURN TO GOVT,
EXCEPT ON STRICT SDP CONDITIONS.

8. MEANWHILE, PRIME MINISTER MIETTUNEN, WHO IS
HEADING GOVT NEGOTIATIONS ON BUDGET, IS USING ALL
NEGOTIATING WEAPONS AT HIS DISPOSAL TO PUSH BUDGET
THROUGH PARLIAMENT WHILE YIELDING AS LITTLE AS
POSSIBLE TO SDP DEMANDS. HE HAS PLACED SDP ON NOTICE
THAT IF IT REJECTS REASONABLE COMPROMISE EARLY THIS
WEEK, HE WILL TURN TO CONSERV PARTY AND CHRISTIAN
LEAGUE PARLIAMENTARY GROUPS FOR BUDGET SUPPORT. IN
PRINCIPLE THIS IS NO IDLE THREAT BECAUSE CENTER AND
RIGHT PARTIES HAVE A BARE PARLIAMENTARY MAJORITY AND
CONSERV PARTY WOULD BE DELIGHTED BE ABLE EXERCISE ITS
INFLUENCE ON MAJOR GOVT ISSUE, ALTHOUGH PROBABLY NOT AS
GOVT PARTNER AT THIS STAGE. CONSERV PARLIAMENTARY
DELEGATION COULD ALSO BE COUNTED ON TO SUPPORT GOVT
ON A VOTE OF CONFIDENCE ON BUDGET SHOULD MIETTUNEN
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DECIDE TO TAKE THAT STEP, SOMETHING HE HAS ALSO
THREATENED. HOWEVER, THE CENTER PARTY IS KNOWN FOR
LONG-STANDING STRATEGIC AND TACTICAL REASONS NOT TO
WANT TO BECOME TOO CLOSE TO CONSERV PARTY AND IS KNOWN
FAVOR CO-GOVERNMENT WITH SDP. THIS DETRACTS SOMEWHAT
FROM CREDIBILITY OF MIETTUNEN THREAT TO TURN TOWARD
RIGHT IN BUDGET BATTLE, BUT THREAT STILL COULD EXERCISE
SOME MODERATING INFLUENCE ON SDP HARD-LINERS.

9. AS FOREGOING INDICATES, CURRENT FINNISH DOMESTIC POLITICAL SCENE IS EVEN MORE CONFUSED THAN USUAL. IF GOF IS TO START OFF NEW YEAR WITH NEW BUDGET, RATHER THAN WITH A CONTINUING RESOLUTION AS HAS HAPPENED NOT INFREQUENTLY IN THE PAST, A DECISION WILL HAVE TO BE REACHED DURING THE NEXT TEN DAYS. GOVT PARTIES AND SDP HAVE EDGED CLOSER TOGETHER IN RECENT DAYS ON SOME ISSUES AND EMBASSY TENDS SHARE VIEW OF MOST OBSERVERS CONSULTED THAT IN FINAL ANALYSIS AGREEMENT CAN BE REACHED, PAVING WAY FOR SDP RETURN TO MAJORITY GOVT. HOWEVER, GIVEN SENSITIVITY OF SOME OF BUDGET ISSUES AT STAKE, AS WELL AS OTHER AREAS OF UNCERTAINTY IDENTIFIED ABOVE, OTHER POSSIBLE OUTCOMES MENTIONED PARA 2 CANNOT BE DISCOUNTED.

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